

## Contractors and Subcontractors – Changes in State Sales and Use Tax Rate

## Sales & Use tax notice

Chapter 856 of the Public Acts of 2002 increases the general state sales and use tax rate on the sale, use or lease of tangible personal property and taxable services by 1% to a new state rate of 7%.

**Also effective July 15, 2002**, a state sales or use tax of 2.75% is levied on the amount in excess of \$1,600, but less than or equal to \$3,200, on the sale or use of any single article of tangible personal property as defined in Tenn. Code Ann. Section 67-6-702(d). The first \$1,600 of the sales price will continue to be taxed at the appropriate local rate. The amount from \$1,600.01 to \$3,200 will be taxed at the state rate of 2.75%. The single-article cap only applies to the sale of tangible personal property and does not apply to the sale of services.

All construction contractors and subcontractors will pay to their vendors the increased state tax rates on materials purchased on or after July 15, 2002. Vendors of materials who have a lump sum or fixed price contract to provide materials are required to collect and remit the new rate of tax

General or prime construction contractors making improvements to real property under a lump sum or unit price construction contract entered into prior to July 15, 2002, or contracts awarded by the state or a political subdivision pursuant to a bid opening which occurred prior to July 15, 2002, if the provisions of such provide that the

amount payable remains fixed without regard to costs, may file a [claim for refund](#) with the Department of Revenue for tax paid to any of the contractor's vendors at a rate in **excess** of the 6% state rate and the applicable local option sales tax in effect July 1, 2002. A claim for refund must be supported by a copy of the contract that was signed prior to July 15, 2002, and documentation in the form of [schedules](#) and invoices to support the payment of sales tax in excess of the 6% state rate. A separate claim form will be required for each contract.

Subcontractors entering into lump sum or unit price contracts to make improvements to realty prior to September 1, 2002, with general or prime contractors that have entered into contracts described in the preceding paragraph prior to July 15, 2002, may file a claim for refund with the Department of Revenue for tax paid in excess of the 6% state rate and the applicable local option sales tax in effect July 1, 2002. A claim for refund must be supported by a copy of the subcontractor's contract that was signed prior to September 1, 2002, a copy of the contractor's contract entered into prior to July 15, 2002, and documentation in the form of schedules and invoices to support the payment of sales tax in excess of the 6% state rate. A separate claim form will be required for each contract.

“Lump sum or unit price construction contract” is defined as a written contract for the construction of, or improvements to, real property under which the amount payable to the contractor, subcontractor, or material vendor is fixed without

regard to costs incurred in the performance of the contract.

Have questions or comments? Please let us know. [Contact us.](#)

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